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The Alignment of the Economic Institutions on Climate Finance

Efficiency in Development and Investment, but Also Carbon Pricing

The involvement of economic institutions has played out somewhat differently in the case of climate finance compared to fossil fuel subsidy reform. All three institutions have framed climate finance in economic terms and stressed normative ideas such as efficiency. They have also linked climate finance to issues such as fossil fuel subsidies, carbon pricing, risk and investment to a larger degree than environmental institutions. This economisation has taken place within the climate finance system characterised by considerable fragmentation in terms of norms, institutions and actor constellations (Pickering et al., 2017). This system includes a much larger and diverse group of actors and international institutions than the fossil fuel subsidy reform system, and much more normative contestation regarding what the core issue is and what it is supposed to achieve. Although the three institutions share an economic framing of climate finance, they do not constitute a distinct cluster within the climate finance complex. Not only does the IMF mainly operate in isolation from the other two institutions, but the G20 and the OECD, despite interacting frequently, also have synergistic relations with other institutions, especially the multilateral development banks (MDBs).

The chapter proceeds by outlining the alignment of the institutions regarding types of output, scope and actors addressed and cognitive, normative and incentive-based dimensions, finding that while they have agreed on an economic framing of the issue, there has also been divergence between the institutions. This divergence is most notable regarding whether carbon pricing should constitute a source of climate finance, and to some extent also regarding how equity should be prioritised. Subsequently, this chapter explains this alignment in terms of economic worldviews and interaction pulling towards convergence. Divergence between the institutions has been driven by differences in worldviews (e.g. between the OECD Development Directorate and the IMF) and the degree of autonomy from member states. Finally, the consequences of the output are described, identifying more significant (cognitive) influences at the international level than the domestic level, but also incentive-based influences from the OECD and the G20.

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13.1 How They Align

13.1.1 Types of Output

The three institutions vary considerably regarding the size of their output on climate finance. The OECD has produced numerous reports, meetings and workshops every year since the mid-2000s and enjoys a quasi-monopoly on climate finance statistics, whereas the output of the other two institutions has been less voluminous and regular. The OECD also stands out in terms of addressing climate finance along two distinct strands, addressing the topic as a development finance issue and as an investment issue respectively. The G20 and the IMF have been more unitary in their approach, while still addressing a range of issues covering development, adaptation, mobilising climate finance, leveraging private finance and reducing investment risk. The formal output of all three institutions has consisted mainly of (rather technical) knowledge. Besides the G20's unsuccessful attempt in 2009 to produce a commitment on climate finance covering its member states (which influenced the subsequent United Nations Framework Convention on Climate Change [UNFCCC] USD 100 billion target), formal G20 output has consisted of reports about how to address specific climate finance issues (adaptation, leverage, etc.). The OECD's main formal output has been knowledge about levels of climate finance, best practices and a new understanding of financial flows, especially in the context of investment. Moreover, the IMF's formal output has solely consisted of reports analysing how to address climate finance issues, particularly sources of climate finance. The OECD DAC's reporting on contributor countries' climate aid arguably provides incentives for delivering more climate aid by increasing transparency and possibilities for comparison between countries (thus allowing for countries with low contributions to suffer reputational costs). The G20 and particularly the OECD have also produced considerable informal output in the shape of arranging meetings and workshops for experts from different countries and institutions, in the case of the OECD also business, interest groups, think tanks, academia and civil society. These meetings have constituted venues for learning about new aspects of climate finance (e.g. investment, leveraging, risk), venues which have been important as many of the participants have not been familiar with climate finance or the climate negotiations, but have come from finance ministries or other economic institutions, the worldview of which has resonated with the institutions' framing of climate finance.

13.1.2 Scope and Actors Addressed

All three institutions have provided output aimed at global audiences. The G20 and the OECD have also provided output more specifically targeted at their member

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states, and the IMF has provided the Climate Change Policy Assessments of individual states. In particular, the 2009 G20 attempt to provide a climate finance agreement, but also the learning processes within the G20 study groups, have been aimed at G20 representatives of member states, often from finance ministries. Likewise, the activities of the OECD Development Assistance Committee (DAC), especially the informal deliberations, have been aimed at OECD member states and to some degree observer states. The OECD investment strand has been more focused on a global and public as well as private audience. Since most of the G20 and OECD publications have been intended for consumption by their member states as well as other actors, it is difficult to draw a sharp line between the output specifically aimed at their member states and that aimed at a global audience. The IMF, with its near-global membership, has provided output aimed at a global membership consisting of states as well as non-state actors, as well as at the G20 in the case of the reports requested by the G20. All three have addressed finance ministries to a larger degree than most other institutions in the climate finance system.[1]

13.1.3 Cognitive Dimensions

All three organisations have framed climate finance and climate change in economic terms, emphasising the economic consequences of climate change and the need for remedying them with economic instruments. Particular emphasis has been placed on linking climate finance to the issues of carbon pricing (especially by the IMF) and fossil fuel subsidy reform, two issues that in a range of other forums – especially the UNFCCC – have not been linked to climate finance until recently, and even then not to the same extent. Climate finance has also more recently been linked to the issues of investment and risk. Unlike for carbon pricing, addressing the risks associated with climate change (Campiglio et al., 2018)– both risks associated with fossil fuel and green investment and with the impact of climate change – does not address the root cause of climate change, but economic obstacles to mitigation and adaptation. Hence, addressing climate finance with reference to these risks constitutes a less ideal-typical case of economisation than addressing it with reference to the externality of climate change (see Chapter 1).

These four issues are all rather 'economic' in the sense that they fully (investment, risk) or partially (carbon pricing, fossil fuel subsidies) belong to the realm of economic policymaking. Linking them to climate change policy in general and climate finance in particular also entails an economic framing of the problem of

[1] The Coalition of Finance Ministers for Climate Action established in 2019 and at the time of writing consisting of nineteen finance ministries from developed and developing countries is the only dedicated forum for a discussion of climate change among finance ministers.

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climate change: it should be addressed with economic policy instruments affecting the cost–benefit calculations of actors making economic decisions (whether to invest in a project, buy a particular product, etc.). The economic framing has also included continuously stressing the importance of private finance, a source of climate finance that has been more controversial in the UNFCCC than in the three institutions, especially as concerns counting it towards the USD 100 billion target.

There is also a shared emphasis on mitigation rather than adaptation (also evident in the emphasis on carbon pricing and fossil fuel subsidies), although all three institutions increasingly address adaptation issues. The increasing attention to adaptation arguably reflects the overall trend in the climate finance system and was evident in the OECD (markedly with the Rio adaptation marker) at an earlier stage compared to the G20 and the IMF.

Nonetheless, there are important differences between the institutions. Notably, the OECD in its development strand has defined climate finance as a subtype of development finance, whereas the IMF has proposed measures that would clearly set climate finance apart from development finance, for example, domestic and international carbon pricing of domestic and international emissions, and the earmarking of domestic revenue. The G20 has occupied the in-between position (but closer to OECD), treating climate finance as more than a subtype of development finance but still with a significant overlap. The IMF has also emphasised the link with carbon pricing – particularly regarding emissions from the international shipping and aviation sectors – to a much larger degree than the other two institutions.

13.1.4 Normative Dimensions

In terms of normative ideas, the three institutions have all prioritised efficiency over equity norms such as Common but Differentiated Responsibilities and Respective Capabilities (CBDR) and vulnerability, and mitigation over adaptation. CBDR has not been central to any of the institutions' output, although the normative idea that climate finance is something developed countries should provide has been inherent to their output. As concerns the allocation of climate finance, although the OECD and the G20 have stressed adaptation finance and climate finance for the most vulnerable, the overall approach has been that efficiency is the key principle. The IMF has been less explicit regarding the allocation of climate finance but has more recently also stressed the importance of adaptation within the context of individual developing countries. The efficiency focus matches the institutions' economic worldview, since it highlights the importance of keeping economic costs low.

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Yet, the institutions have diverged more regarding normative ideas than cognitive. Generally speaking, the IMF has advocated solutions rooted in a vision of how climate finance ideally should be addressed, whereas the G20 and the OECD have largely based their positions on the actual state of affairs and in the case of the OECD tried to forge ahead within the context of this state of affairs. First, in the 2010 reports to the G20, the IMF (implicitly) advocated a global burden-sharing key based on emissions, while the G20 and the OECD left it to the individual country to determine its contribution. Second, carbon pricing has been addressed in different ways: whereas the IMF outright advocated adopting it at the domestic and the international levels (especially the latter might infringe on the fiscal sovereignty of states), the OECD and particularly the G20 have stressed that adopting carbon pricing is inherently a national decision. The IMF advocacy of carbon pricing has been rooted in its framing of climate change as an externality that should be addressed by pricing the externality, a vision not shared with the G20 and the OECD (see Chapters 7 and 12 regarding the IMF's promotion of carbon pricing). Altogether, the output from the OECD and the G20 has been more closely aligned with the preferences of its member states than the output of the IMF. Thus, economisation has been more ideal-typical or 'pure' in the case of the IMF, and less 'contaminated' with member state preferences (as discussed in Section 13.2).

13.1.5 Incentives

The institutions have provided very few direct changes to the incentive structures to the actors involved in climate finance, be they contributors, recipients or a third kind of actor. The incentives provided by the institutions have not been in conflict at any point, and have to some degree been synergistic. The OECD DAC's monitoring of bilateral (and recently also multilateral) climate aid, incentivises countries to provide more climate finance (but also to designate more of their development finance as climate-related), as well as to prioritise vulnerable countries and adaptation. Such incentives may consist of reputational costs associated with not living up to climate finance commitments, which reduce the credibility of the states and developed countries as a group when future commitments (regarding climate finance or other issues) are negotiated. Yet, the absence of individual country climate finance targets limits the impact of such reputational costs. The 2009 G20 attempt to create a shared climate finance commitment for industrialised countries would have constituted an important change to incentive structures (in terms of developed G20 countries facing reputational costs if the commitment were not fulfilled), yet did not succeed. It was only influential in an indirect way through influencing the UNFCCC's Fifteenth Conference of the Parties (COP15) climate

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finance commitment, most notably the USD 100 billion target, which the developed countries may suffer reputational costs if they do not meet. The IMF's recent attention to climate measures in its interaction with individual countries via so-called Climate Change Policy Assessments and in the future also Article IV consultations) may affect the incentives of both contributors and recipients of climate finance, for example, by tying IMF finance to the Assessments or by contributor countries providing more finance to countries with positive Assessments. At the time of writing, five countries (Belize, Grenada, Micronesia, St Lucia and the Seychelles) have been the subjects of such Assessments.

13.2 Causes of Alignment

The institutions' economic framing of climate finance (the second aspect of economisation) can to a large degree be ascribed to their worldviews. This has been particularly evident in the case of the IMF, which has linked climate finance to carbon pricing because of IMF staff's fundamental understanding of climate change as an externality to be corrected (see also Chapters 7 and 12). It is also evident in the OECD's development strand, within which the Development Cooperation Directorate and the members of the DAC and its working groups defined climate aid as a type of development aid. In the OECD's investment strand, the Environment as well as the Financial and Enterprise Affairs Directorates, working with the environment and the finance (and economics) ministries respectively, framed climate finance as an investment issue in line with their worldviews. Even the G20, with its rotating secretariat and lower degree of institutionalisation has framed climate finance in economic terms in line with the institutionalised worldview of being an economic institution and of the finance ministry officials constituting the largest group of participants at its expert meetings. The OECD's greater experience in dealing with development aid compared to the G20 and the IMF, has shaped its worldview and hence its framing of climate finance as a development issue. The other two institutions had less experience of closely related issues but have relied on their past experience of dealing with economic issues, and both have addressed climate finance as an economic issue to be dealt with using economic instruments.

Policy entrepreneurs have been important in the case of the G20, in which the United Kingdom has been essential in ensuring that the forum has addressed climate finance. Subsequent Presidencies, including the 2012 Mexican and 2016 Chinese Presidencies, were also important in setting up expert working groups and in shaping their agenda. Entrepreneurship has played a less important role in inducing the IMF and the OECD to address climate finance, although IMF officials

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have independently chosen to address climate finance in a number of IMF publications (e.g. Bredenkamp and Pattillo, 2010; Grippa et al., 2019). More importantly, as concerns how climate finance has been addressed, staff of both bureaucracies have attempted to forge ahead and have acted independently of the member states.

Relations with member states have been most important in terms of autonomy from the principals acting as a scope condition for International Organisation (IO) bureaucracies. The IMF bureaucracy has operated rather independently of the member states and has not been influenced by them, while the different OECD directorates have interacted closely with member state representatives (interview with senior OECD official, 30 April 2015). Hence, the IMF has had more autonomy than the OECD, and used this autonomy to adopt positions that has run against the preferences of key principals, including the United States and Japan, particularly by advocating a global burden-sharing of the provision of climate finance. Yet, the IMF staff has not gone as far as it did regarding fossil fuel subsidies, rather it has accepted that some aspects of climate finance have been beyond their mandate. Unlike the IMF, the OECD bureaucracy has been obliged to make sure all its output has been acceptable to its principal (the member states), which is a key reason for why the OECD's organisational output has been largely aligned with the member states. Differences in membership circles, how member state representatives arrive at decisions (voting or consensus) and which ministries represent the states have played less significant roles. Although the G20 has reflected the preferences of major emerging economies to a greater degree than the other institutions, the OECD has not to a larger extent reflected the interests of smaller developed countries, compared to the G20. Thus, the 'purer' economisation of climate change in the IMF output compared to the G20 and OECD output is due mainly to the greater autonomy of the IMF bureaucracy allowing for intra-institutional factors to play a role, not to the aggregated preferences of its member states.

The interaction with other institutions has played a more important role. This interaction, especially between the three institutions has led to more synergistic relations. The G20 has influenced the IMF in particular to address climate finance (the first aspect of economisation), yet not how the IMF should address it (the second aspect of economisation). While the OECD agenda has also been influenced by interaction with the G20, particularly being commissioned to analyse climate finance, this influence has been less decisive: the OECD has published many reports on climate finance which were not commissioned by the G20 and these reports are not significantly different to those commissioned by the G20. In return, the input from the IMF and especially the OECD has constituted an ideational influence on G20 output, especially its more technical dimensions. As regards other institutions, the three institutions have interacted to

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a large degree with the same institutions, particularly the World Bank and other development banks, but also the United Nations Development Programme (UNDP) and United Nations Environment Programme (UNEP). Arguably, the interaction with a similar set of institutions has pulled in the direction of ideational convergence among the institutions regarding how climate finance was addressed. This dynamic is particularly evident in more recent developments towards focusing on sustainable investment broadly speaking, an issue on which the three institutions adopt very similar positions. While the differences in autonomy of the IMF and the OECD have led to diverging positions, the institutions have not been in conflict, but rather occupied different positions within the climate finance complex (i.e. co-existence), the IMF playing a much less active role than the OECD.

13.3 Consequences of Alignment

The output of the three institutions has had a more easily discernible impact at the international level compared to the domestic level.

13.3.1 International Level

The three institutions have interacted with a range of other institutions, with considerable overlap between them in terms of which institutions they have interacted with. Arguably, the most important influence on another institution has been the influence of the G20 on the UNFCCC, when the discussions within the G20 in spite of the disagreements helped make an agreement on climate finance possible at COP15. The G20 process established an understanding among emerging and developed country finance ministries, which influenced how climate finance was addressed in the UNFCCC (interview with senior Indian Finance Ministry official, 3 November 2014). The G20 process meant that the G20 representatives involved in the drafting of the Copenhagen Accord (a small group of countries in which G20 countries constituted the majority) knew what would be acceptable to the other G20 countries' finance ministries, making an agreement easier. The understanding included that private finance would count as climate finance (accepted by the emerging G20 countries) and that there should be a collective climate finance target (accepted by developed G20 countries). The increased credibility of negotiation offers constitutes an incentive-based influence.

Cognitive influences constitute the most widespread kind of influence, adding to the degree of synergy in the climate finance system. The OECD has had an important cognitive influence on the UNFCCC, particularly the Standing

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Committee on Finance, which has used OECD estimates of finance flows in its reports. These OECD estimates as well as other OECD climate finance have also been used by other international institutions, including think tanks, research institutions and non-governmental organisations. Regarding the recent trend of focusing on investment, all three institutions have influenced the World Bank and other MDBs, as well as UNEP and UNDP. Beyond this, the cognitive influence of the IMF has been rather limited at the international level beyond the G20. Collaboration on producing publications and participation in workshops and seminars have been important channels for G20 and especially OECD cognitive influence on international institutions including the MDBs, UNEP, UNDP and other economic, development and environmental institutions. By defining the terms of the workshops and especially in the case of the OECD also producing much of the data material and analyses discussed, the two institutions have been able to encourage and shape the other institutions' output on climate finance.

As regards more normative interaction, the three institutions have addressed the key normative issues in climate finance in a way that reflects their character as economic institutions, and have hence increased the degree of divergence on normative issues in the climate finance system. This is evident in their strong emphasis on efficiency, which sets them apart from the UNFCCC. The three institutions have been able to cluster together with other economics-oriented institutions such as the MDBs and the Financial Stability Board on these normative issues, but have differed from environmental and development institutions, especially those within which developing countries have significant influence. In terms of agenda-setting, only the G20 has had an influence on the institutions it requested to provide an analysis of climate finance (beyond the IMF and the OECD mainly the MDBs but also the Bank of International Settlements and other economic institutions).

13.3.2 Domestic Level

The influence on the domestic level is more difficult to discern, inter alia because there has been less direct interaction with this level. The most important influence has been the institutions' contribution to a climate finance system in which the most important decisions regarding climate finance allocation are made by the contributor countries with developing countries having few possibilities for influencing these decisions. The Copenhagen Accord is an important element of this system, and hence the G20 influence on the Copenhagen Accord has contributed to shaping this system.

In terms of more direct influences, the OECD DAC output has constituted an incentive to provide more climate finance and to do so in line with equity normative

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ideas such as prioritising vulnerable countries and adaptation. Furthermore, its data has been used in (by NGOs) and among countries to highlight and criticise the provision of climate finance of individual governments. The IMF has a less direct influence on recipient countries that have been the subject of Climate Change Policy Assessments. These assessments may in the future influence how much climate finance they receive and for which projects.

Cognitive and normative influences are more salient for all three institutions, especially the G20 and the OECD. Through meetings and workshops the two institutions have been able to influence the participants' understanding of climate finance, especially as many of them have come from finance ministries and thus have been new to the topic and more susceptible to the framings of climate finance promoted at the meetings. The engagement with finance ministries has also meant that the two institutions have exerted an (albeit limited) agenda-setting influence over these finance ministries.

13.4 Summary

The mainly knowledge-based output of the three institutions has involved economic framings of climate finance. These framings emphasise the economic consequences of climate change and economic instruments such as carbon pricing, fossil fuel subsidy reform, investment and risk, and in normative terms prioritise efficiency over equity. The G20 and the OECD have been closely aligned with the IMF occupying a more distinct space. The differences between the institutions have mainly concerned normative issues such as the role of carbon pricing and burden-sharing among developed countries, supported by the IMF but not the other institutions. In spite of this divergence, the overall relationship among the institutions has been mainly synergistic. The economic framings have been driven by their economic worldviews, and also to some degree by policy entrepreneurs within the institutions and interaction with other institutions. Interaction with other institutions, especially the UNFCCC, has also been instrumental in inducing the institutions to address climate finance. Relations with member states have been important mostly in terms of acting as a scope condition for IO bureaucracies. The influence of this output has been most pronounced in the case of the OECD DAC, which has produced data on public climate finance that have constituted a cognitive influence on the international (including the UNFCCC) level and on the domestic level, as well as incentive-based influence on the latter. Other kinds of influence have been mainly cognitive and normative and easier to discern at the international level compared to the domestic.

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